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SUBJECT: FRENCH INDUSTRIAL POLICY: A PRIMER AND LATEST
DEVELOPMENTS

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1. INTRODUCTION AND SUMMARY.
ON JUNE 1 THE GOF INAUGURATED A SIGNIFICANT SHIFT
IN FRENCH ECONOMIC POLICY: AFTER THIRTY YEARS OF PRICE
CONTROLS, FRENCH INDUSTRIALISTS--WHO HAVE LONG ADVOCATED
TS MOVE--WILL NOW BE FREE TO ESTABLISH THEIR PRICES
ON THE BASIS OF MARKET FORCES AND NOT OF GOVERNMENT

DICTATES. THE LIFTING OF PRICE CONTROLS WILL BE GRADUAL--BEGINNING WITH INDUSTRIAL PRICES IN THOSE SECTORS MOST EXPOSED TO FOREIGN COMPETITION IN ORDER TO MINIMIZE THE INFLATIONARY PUSH--AND THE NEW PRICE FREEDOM HAS BEEN CALLED "IRREVERSIBLE".

THIS ACTION COINCIDES WITH AN EQUALLY IMPORTANT CHANGE IN FRENCH INDUSTRIAL POLICY: LESS STATE INTER-VENTION IN THE INDUSTRIAL RESTRUCTURING PROCESS. INDUSTRIAL READJUSTMENT WILL NOT BE "DECREED" BUT LEFT TO PRIVATE INITIATIVE AND THE DISCIPLINE OF THE MARKET. THE CHIEF EXECUTOR OF THIS POLICY IS THE NEW MINISTER OF INDUSTRY, ANDRE GIRAUD, WHO WAS FORMERLY HEAD OF FRANCE'S ATOMIC ENERGY COMMISSION. HE IS KNOWN AS A HARD-DRIVING, HIGHLY CAPABLE ADMINISTRATOR WHO CAN BE EXPECTED TO IMPLEMENT THIS NEW APPROACH VIGOROUSLY AND EFFICIENTLY.

THIS MOVEMENT FROM "DIRIGISME" TO "LIBERALISME" IS IN KEEPING WITH PRIME MINISTER BARRE'S ECONOMIC PHILOSOPHY AND WAS MADE POSSIBLE IN PART BY THE DRAMATIC VICTORY OF THE CENTER-RIGHT PARTIES IN THE MARCH ELECTION, WHICH PROVIDED THE GOVERNMENT WITH MORE LEEWAY FOR ACTION THAN WOULD HAVE BEEN THE CASE IF RETURNED WITH ONLY A SLIGHT MAJORITY. HOWEVER, AS WE POINTED OUT IN REFTEL A ("ELECTIONS 78--CONSTRAINTS IN FRENCH

ECONOMIC POLICIES"), "THE NEXT FRENCH GOVERNMENT WILL HAVE ITS HANDS FULL TRYING TO SQUARE THE SHORT-TERM ECONOMIC CIRCLE, MUCH LESS OVERHALL THE FRENCH ECONOMY FOR THE LONGER RUN." WE CONTINUE TO HOLD THIS VIEW, AND A STROKE OF THE PEN WILL NOT SUFFICE TO CHANGE LONG INGRAINED HABITS AND BIASES. HOWEVER, WE BELIEVE THAT FRANCE'S NEW INDUSTRIAL POLICY IS A MAJOR STEP IN THE RIGHT DIRECTION AND, IF APPLIED WITH LIMITED EXCEPTIONS AND NOT FRUSTRATED BY COUNTERVAILING

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SOCIAL AND POLITICAL CONSIDERATIONS, WILL EFFECT A LONG OVERDUE WRINGING OUT OF THE STRUCTURAL DISTORTIONS WHICH CURRENTLY INHIBIT FRENCH ECONOMIC DEVELOPMENT.

IN VIEW OF THE IMPORTANCE OF THESE POLICY CHANGES, AN UPDATE ON FRENCH INDUSTRIAL STRATEGY IS APPROPRIATE. IN THIS MESSAGE WE SKETCH THE PRINCIPLES AND OBJECTIVES OF FRENCH INDUSTRIAL POLICY, THE GOVERNMENT STRUCTURE FOR ITS IMPLEMENTATION, THE KEY INDUSTRIAL SECTORS AFFECTED, AND THE IMPLICATIONS FOR FRENCH/US RELATIONS AND FOR US TRADE AND INVESTMENT

OPPORTUNITIES.

2. THE SETTING.
A. THE PLAN. THE FRENCH HAVE A PENCHANT FOR PLANNING AND THE POST-WORLD WAR II ECONOMIC DEVELOPMENT OF FRANCE HAS OCCURED WITHIN THE FRAMEWORK OF A SERIES OF AMBITIOUS FIVE-YEAR PLANS. THE GOF IS CURRENTLY OPERATING UNDER THE SEVENTH PLAN (1976-80). THE PLAN IS A CAREFULLY BROKERED DOCUMENT DESIGNED TO ESTABLISH THE PARAMETERS WITHIN

WHICH THE GOVERNMENT AND PRIVATE SECTOR WILL SEEK TO DIRECT THEIR ACTIVITIES AND EFFORTS TO DEVELOP THE FRENCH ECONOMY. THE PLAN IS "INDICATIVE" AND NOT CAST IN CONCRETE. ALTHOUGH IT PLAYED AN IMPORTANT ROLE IN FRANCE'S POST-WORLD WAR II INDUSTRIAL DEVELOPMENT, IN RECENT YEARS IT HAS HAD A DECLINING EFFECT ON THE PATTERN OF INDUSTRIAL DEVELOPMENT.

B. THE GOF--OMNIPRESENT. TO APPRECIATE THE IMPORTANCE OF INDUSTRIAL POLICY IN FRANCE ONE NEEDS ONLY REFER TO THE FACT THAT TEN PERCENT OF FRANCE'S GDP IS DERIVED FROM NATIONALIZED FIRMS, THAT TWO-THIRDS OF THE BANKING SECTOR IS GOVERNMENT OWNED, THAT PRICES HAVE BEEN CONTROLLED FOR THIRTY YEARS, AND THAT GOVERNMENT SUBSIDIES TO INDUSTRY ARE CURRENTLY RUNNING AT AN ANNUAL RATE OF $6.5 BILLION, NOT INCLUDING EMERGENCY LOANS TO PROBLEM INDUSTRIES. THIS ENVIRONMENT HAS CREATED A SUBSERVIENT, HANDOUT-ORIENTED BEHAVIOR ON THE PART OF MANY FRENCH INDUSTRIAL-ISTS. AND COUPLED WITH AN "OLD BOY" NETWORK OF GOVERNMENT ALUMNI IN THE PRIVATE SECTOR, IT HAS RESULTED IN A GOF OMNIPRESENCE IN PRIVATE SECTOR ACTIVITIES BY LAW AND CUSTOM. THE GOF IS SEEKING

TO CHANGE THESE ATTITUDES AND PRACTICES; THUS ITS RADICAL DEPARTURES, ITS NEW GUIDING PRINCIPLES ON THE PRICE AND INDUSTRIAL POLICY FRONTS.

3. NEW GUIDING PRINCIPLES.

A. MORE "LIBERALISME". THE NEW MINISTER OF ECONOMY, RENE MONORY (MINISTER OF INDUSTRY IN THE PREVIOUS BARRE GOVERNMENT), RECENTLY STATED THAT "AFTER 30 YEARS OF AN ASSISTED ECONOMY THE TIME HAS COME TO CHANGE TO AN ECONOMY OF COMPETITION AND RESPONSIBILITY." THE NEW GOVERNMENT PROCLAIMS THAT ITS LEADERS HAVE CHOSEN TO REORIENT THE FRENCH ECONOMY TOWARDS A FREE MARKET SYSTEM VIA THE LIFTING OF PRICE CONTROLS AND THE FOREBEARING OF INTERVENTION IN THE MARKET PLACE. HOWEVER, THIS MOVEMENT TOWARD "LIBERALISM" WILL TAKE PLACE BY STAGES TO AVOID UNDUE INFLATIONARY PRESSURES, PARTICULARLY FROM THE WAGE SIDE. SOME INDUSTRIAL PRICES WILL BE FREED BEGINNING JUNE 1 TO PERMIT COMPANIES TO REBUILD THEIR CASH POSITION. THE FIRST STAGE SECTORS ARE THOSE MOST OPEN TO FOREIGN COMPETITION, E.G., MACHINE TOOLS, UTILITY VEHICLES, WATCHES. INDUSTRIAL PRICES SHOULD BE TOTALLY FREED BY OCTOBER. PRICES FOR SERVICES WILL BE FREED BEGINNING IN 1979. (DISMANTLING OF THIS SYSTEM, IN PLACE SINCE 1945, WILL BE NO MEAN FEAT:

THERE ARE FOUR DIFFERENT PRICE REGIMES, THOUSANDS OF
IMPLEMENTING DECREES, AND APPROXIMATELY TWO THOUSAND
INSPECTORS--DOWN FROM THE TEN THOUSAND LEVEL DURING
THE HEYDAYS OF CONTROLS.

B. AND LESS "DIRIGISME." THE GOF HAS ALSO
DECLARED ITS INTENTION TO BE MORE SELECTIVE
IN PROVIDING AID TO COMPANIES IN DIFFICULTY; STATE
INTERVENTION SHOULD BE THE EXCEPTION AND NOT THE
RULE. HOWEVER, THE PRIME MINISTER IS ON RECORD IN
FAVOR OF SUPPORT TO FIRMS--PARTICULARLY IN IMPACTED
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REGIONS--EXPERIENCING TRANSITORY DIFFICULTIES, WITH
THE IMPORTANT CAVEAT THAT THE MANAGERS PRESENT A
VIABLE REORGANIZATION PROGRAM. IF NOT, THE GOVERNMENT
WILL FORCE DIVESTMENT AND THE APPOINTMENT OF NEW

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GOVERNMENT SPOKESMEN JUSTIFY THIS "NEW"
INDUSTRIAL POLICY APPROACH--ONE WHERE READJUSTMENT IS
NOT "DECREED" BUT LEFT TO PRIVATE INITIATIVE AND THE
DISCIPLINE OF MARKET FORCES--ON THE FOLLOWING GROUNDS:
--A CONTINUED ACCRETION OF ECONOMIC AND
POLITICAL POWER TO THE STATE IS IN CONTRADICTION
WITH THE GOVERNMENT'S DESIRE TO INCREASE
PERSONAL LIBERTIES;
--TECHNOCRATS DO NOT HAVE THE NECESSARY

EXPERIENCE TO REMODEL INDUSTRY;
--PUBLIC RESOURCES ARE SCARCE DURING LOW-GROWTH
PERIODS AND SHOULD NOT BE WASTED ON FIRMS
THAT SHOW LITTLE PROMISE;

4. OBJECTIVES. ACCORDING TO GOF SOURCES THIS
NEW INDUSTRIAL POLICY IS DESIGNED:

A. TO SOFTEN THE TRANSITION OR DECLINE OF
SOME COMPANIES AND SECTORS, E.G., STEEL, TEXTILES,
SHIPBUILDING, COAL MINING. STATE INTERVENTION WOULD
TAKE THE FORM OF LOANS TO ASSIST IN THE MODERNIZATION
OF THESE COMPANIES AND SECTORS AND DIRECT PAYMENTS TO
WORKERS WHO ARE RELEASED. HOWEVER, GOVERNMENT LEADERS
STRESS THAT SUBSIDIES WILL NO LONGER BE MADE AVAILABLE
TO KEEP INEFFICIENT FIRMS AFLOAT INDEFINITELY.

B. TO STRENGTHEN THE STRUCTURE OF HIGH-
POTENTIAL OR CRITICAL INDUSTRIAL SECTORS WHERE
STATE INTERVENTION IS NECESSARY TO ENCOURAGE INVESTMENT
AND EMPLOYMENT CREATION, E.G., AUTOMOBILES, TRUCKS,
PETROLEUM REFINING, PULP AND PAPER, METAL
CONSTRUCTION, AGRICULTURAL MACHINERY, RAILROAD
EQUIPMENT.

C. TO HELP RESTORE BALANCE OF PAYMENTS
EQUILIBRIUM BY:
--CONSUMING MORE ECONOMICALLY;
--PROMOTING DOMESTIC IMPORT-SUBSTITUTION
INDUSTRIES WHICH FRANCE HAS NEGLECTED, E.G.,
WOOD;

--TAKING ACTION AT THE BORDER, I.E., AGAINST "SAVAGE" IMPORTS FROM LOW-WAGE COUNTRIES;
--REDUCING THE NUMBER OF FOREIGN WORKERS (WHO

NUMBER OVER TWO MILLION AND CURRENTLY REPATRIATE OVER SEVEN BILLION FRANCS PER YEAR);
--REINFORCING EFFORTS TO SELL FRENCH LICENSES AND PATENTS ABROAD (FRANCE'S DEFICIT IN LICENSES AND PATENTS IS ONE BILLION FRANCS ANNUALLY);
--ASSISTING SMALL- AND MEDIUM-SIZED FIRMS TO GET INTO THE EXPORT MARKET;
--NEGOTIATING JOINT VENTURES WITH FOREIGN FIRMS IN SECTORS WHERE THE FINANCIAL REQUIREMENTS AND RISKS ARE GREAT, E.G., COMPUTERS, AEROSPACE, NUCLEAR.

D. AND, ABOVE ALL, TO IMPROVE THE PROFIT POSITION OF FRENCH FIRMS TO PERMIT THEM TO UNDERTAKE NECESSARY NEW INVESTMENT. CORPORATE FINANCIAL BALANCES DETERIORATED DURING THE 1974-75 RECESSION AND HAVE NOT YET FULLY RECOVERED RESULTING IN LOWER CORPORATE INVESTMENT PROPENSITIES. (SEE REFAIR D FOR A DETAILED ANALYSIS OF THE FINANCIAL SITUATION OF THE FRENCH CORPORATE SECTOR.) IN ADDITION, THE GOVERNMENT RECENTLY ANNOUNCED A SERIES OF NEW MEASURES DESIGNED TO CHANNEL SAVINGS INTO PRODUCTIVE INVESTMENT.

5. GOF STRUCTURE.

A. THE MINISTRY OF INDUSTRY IS THE CENTRAL POINT FOR THE DEVELOPMENT OF STRUCTURAL REORGANIZATION PLANS AND THE IMPLEMENTATION OF INDUSTRIAL POLICY. IT IS ORGANIZED ALONG INDUSTRY LINES AND ITS OFFICIALS ARE IN CLOSE AND FREQUENT TOUCH WITH THE PRIVATE SECTOR. THE MINISTRY BECOMES HEAVILY INVOLVED IN COMPANY REORGANIZATIONS AND MONITORS RESTRUCTURING PROGRESS WHERE STATE ASSISTANCE IS INVOLVED.

B. THE MINISTRY OF ECONOMY IS ALSO HEAVILY

ENGAGED BY VIRTURE OF ITS CONTROL OF THE PURSESTRINGS. IT ALSO APPROVES ALL INWARD DIRECT INVESTMENT EXCEPT THOSE FOR LESS THAN ONE MILLION FRANCS BY UNINCORPORATED

INDIVIDUALS.

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C. THE PLANNING COMMISSION IS ATTACHED TO THE PRIME MINISTER'S OFFICE AND COORDINATES THE INPUT OF THE VARIOUS MINISTRIES INTO THE FORMULATION OF THE FIVE YEAR PLANS, PREPARES SECTORAL AND SPECIAL REGIONAL STUDIES AND MONITORS "COMPLIANCE" WITH PLAN OBJECTIVES.

D. THE GOF REGIONAL DEVELOPMENT AGENCY (DATAR), ALSO ATTACHED TO THE PRIME MINISTER'S OFFICE, IS RESPONSIBLE FOR PROMOTING REGIONAL DEVELOPMENT VIA A
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WIDE RANGE OF SUBSIDIES TO ATTRACT NEW INDUSTRIES INTO DEPRESSED AREAS. IT HAS VETO POWER OVER COMPANY PLANS TO ESTABLISH MANUFACTURING FACILITIES IN THE PARIS REGION.

E. THE CAPSTONE IS AN INTER-MINISTERIAL COMMITTEE CHAIRED BY THE PRIME MINISTER WHICH MEETS PERIODICALLY TO REVIEW AND APPROVE THE GENERAL AND SPECIFIC ACTIONS PROPOSED TO RESOLVE INDUSTRIAL RESTRUCTURING PROBLEMS.

6. SECTORAL POLICIES. FRENCH STRATEGISTS DIFFERENTIATE AMONG THREE TYPES OF INDUSTRY: THOSE IN DECLINE, THOSE IN TRANSITION, AND THOSE IN THE HIGH TECHNOLOGY/HIGH GROWTH POTENTIAL GROUP.

A. INDUSTRIES IN DECLINE. THESE INCLUDE STEEL, TEXTILES, AND SHIPBUILDING WHERE THERE IS EITHER WORLDWIDE OVERCAPACITY AND/OR STRONG COMPETITION FROM LOW-WAGE COUNTRIES. WHILE THE GENERAL HEALTH OF THESE SECTORS MAY BE PRECARIOUS, THERE ARE NUMEROUS INDIVIDUAL FIRMS WHICH ARE BEARING UP WELL. THUS, DECLINE DOES NOT MEAN THE DEMISE OF THE INDUSTRY BUT RATHER THE DISAPPEARANCE OF THE LESS VIGOROUS AND LESS EFFICIENT FIRMS. IN THESE DECLINING INDUSTRIES FRANCE HAS SOUGHT AN EC-WIDE APPROACH WITH BORDER ADJUSTMENT AS A MAIN COMPONENT OF THE GOF STRATEGY TO SOFTEN OR ARREST THE DECLINE. THE GOF HAS INDICATED IT WILL INCREASINGLY DIRECT ITS EFFORTS TOWARD ATTRACTING NEW INDUSTRIES TO THE IMPACTED REGIONS TO FACILITATE THE SHIFT OF WORKERS OUT OF THE DECLINING SECTORS.

B. INDUSTRIES IN TRANSITION. THESE INCLUDE PAPER AND PULP AND AUTOMOBILES. REGARDING PAPER AND PULP, THE GOF IS LIKELY TO UNDERTAKE A MAJOR EFFORT TO INCREASE FRANCE'S PRODUCTION OF THESE PRODUCTS TO REDUCE ITS DEPENDENCE ON FOREIGN SUPPLIERS. (FRANCE CURRENTLY RUNS AN ESTIMATED TEN BILLION FRANC BALANCE OF PAYMENTS DEFICIT ANNUALLY IN THESE PRODUCTS.) WHILE THE AUTOMOTIVE INDUSTRY IS AT PRESENT RELATIVELY HEALTHY, THE GOF IS INCREASINGLY CONCERNED ABOUT JAPANESE COMPETITION AND IS WATCHING DEVELOPMENTS IN THIS INDUSTRY CLOSELY.

C. HIGH TECHNOLOGY. THE FRENCH ARE DETERMINED TO DEVELOP AND MAINTAIN THE TECHNOLOGICAL CAPACITY TO COMPETE ON A WORLDWIDE BASIS IN THE HIGH VALUE-ADDED, HIGH TECHNOLOGY SECTORS IN WHICH THEY SEE A COMPARATIVE ADVANTAGE AND GOOD GROWTH POTENTIAL, E.G., DATA PROCESSING, AIRCRAFT, TELECOMMUNICATIONS, ENERGY.

--IN THE DATA PROCESSING FIELD, THE FRENCH ARE ANXIOUS TO REMAIN ABREAST OF THE LATEST TECHNOLOGY FOR STORING, TREATING AND TRANSMITT- ING INFORMATION. THE "FRENCHIFICATION" OF HONEYWELL-BULL, VIA ITS FUSION WITH CII, IS AN EXAMPLE OF THE FRENCH APPROACH IN THIS SECTOR. IN ADDITION TO "FRENCHIFICATION", THE GOVERNMENT WILL LIKELY CONTINUE TO USE ITS PROCUREMENT POLICIES TO FAVOR FRENCH FIRMS OWNED BY FRENCH INTERESTS OVER FOREIGN FIRMS AND FRENCH FIRMS OWNED BY FOREIGN INTERESTS, E.G., IBM FRANCE.

--REGARDING AIRCRAFT, THE FRENCH COUNT HEAVILY ON THE SUCCESS OF THE AIRBUS (WHICH HAS SIGNIFICANT US PARTICIPATION--UP TO ONE-THIRD OF THE VALUE ADDED). FUTURE DEVELOPMENTS IN THE FRENCH AEROSPACE INDUSTRY WILL MOST LIKELY ENTAIL JOINT VENTURES WITH OTHER EUROPEAN

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FIRMS. TO THE EXTENT THAT FRANCE WILL ALLOW SUCH VENTURES WITH AMERICAN FIRMS, IT WILL INSIST THAT THEY BE ON AN EVEN PARTNERSHIP BASIS.

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--IN TELECOMMUNICATIONS THE GOF HAS ALSO EMPLOYED THE "FRENCHIFICATION" APPROACH,E.G., THE ACQUISITION BY THOMPSON-BRANDT OF THE ITT AFFILIATE, LMT. IN ADDITION THE GOVERNMENT POST AND TELECOMMUNICATIONS OFFICE HAS A STRONG PREFERENCE FOR FRENCH EQUIPMENT AND THIS IS UNLIKELY TO CHANGE.
--ENERGY POLICY IS AIMED AT REDUCING FRANCE'S DEPENDENCY ON PETROLEUM BY DEVELOPING A VAST NUCLEAR GENERATING CAPACITY, UNDERTAKING AN ENERGY CONSERVATION PROGRAM, AND TAPPING NEW

SOURCES OF ENERGY, E.G., SOLAR. IN THE NUCLEAR AND SOLAR ENERGY FIELD WE CAN EXPECT AGGRESSIVE COMPETITION FROM FRENCH FIRMS IN THE FRENCH AND THIRD WORLD MARKETS.

7. IMPACT ON FRENCH-US RELATIONS. FRENCH INDUSTRIAL POLICY HAS IMPLICATIONS FOR TRADE, INVESTMENT, EC INDUSTRIAL POLICY AND THE NORTH-SOUTH DIALOGUE.

A. TRADE. THE GOF RECOGNIZES THAT FRANCE'S DEPENDENCE ON TRADE (ABOUT 20 PERCENT OF GDP) IS SUCH THAT A BLATANTLY PROTECTIONIST APPROACH TO ABATE SECTORAL PROBLEMS IS NOT A VIABLE SOLUTION. INDEED, IRRESPECTIVE OF ITS BEHAVIOR RELATIVE TO INDUSTRIAL TARIFFS AT THE MTN NEGOTIATIONS, THE GOF IS CLEARLY LOOKING TO FOREIGN TRADE BOTH TO MODERATE FRENCH

INDUSTRIAL PRICES AND TO KEEP PRESSURE ON FRENCH INDUSTRIALISTS TO INNOVATE AND RESTRUCTURE. NEVERTHE- LESS, DOMESTIC SOCIAL AND POLITICAL PRESSURES, COUPLED WITH NATIONAL INTEREST SENSITIVITIES, WILL LEAD FRANCE IN EXTREMIS TO PUSH FOR SHORT TERM BORDER ADJUSTMENTS AS WE HAVE ALREADY SEEN WITH REGARD TO STEE AND TEXTILES, AND WHICH WE MAY SOON SEE WITH REGARD TO PETROLEUM REFINING. WE SHOULD BE ALERT FOR THE DEVELOPMENT OF SIMILAR APPROACHES IN OTHER SECTORS WHERE THE POTENTIAL FOR DECLINE IS INHERENT IN THEIR STRUCTURE AND WHERE NATIONAL INTEREST IS OF HIGH ORDER, E.G., AUTOMOBILES, CHEMICALS. REGARDING HIGH TECHNOLOGY INDUSTRIES, TRADE DISTORTIONS TEND TO OCCUR BECAUSE OF GOVERNMENT SUBSIDIES AND PROCUREMENT POLICIES. THE FRENCH EXPECT AND PLAN THAT THESE INDUSTRIES--ALONG WITH AGRICULTURE--WILL ACCOUNT FOR AN EVER INCREASING SHARE OF THEIR EXPORTS WHICH ARE

PRESENTLY TOO HEAVILY CONCENTRATED IN MID-RANGE TECHNOLOGY PRODUCTS.

REGARDING US EXPORTS TO FRANCE, WE CANNOT YET DETERMINE WITH ANY DEGREE OF PRECISION WHICH SECTORS ARE LIKELY TO OFFER INCREASED OR DECREASED OPPORTUNITIES AS A RESULT OF THIS INDUSTRIAL POLICY REORIENTATION. HOWEVER, WE PLAN IN FUTURE SECTORAL ANALYSES TO EXAMINE THIS ASPECT IN DETAIL (REF F).

B. INVESTMENT. THE GOF CONTINUES TO CONTROL VIRTUALLY ALL INWARD DIRECT INVESTMENT AND EXAMINES EACH INVESTMENT PROPOSAL TO SEE IF IT:

--REINFORCES GOVERNMENT SECTORAL PROGRAMS FOR STRENGTHENING OR CONSOLIDATING FRENCH INDUSTRY

--BRINGS IN NEW TECHNOLOGY;

--HELPS OR AT LEAST HAS A NEUTRAL EFFECT ON FRANCE'S BALANCE OF PAYMENTS;

--CREATES NEW EMPLOYMENT AND NEW PRODUCTION FACILITIES AS OPPOSED TO TAKEOVERS WHICH DO NEITHER.

WE EXPECT THE GOF WILL CONTINUE TO MAKE LIFE DIFFICULT FOR FOREIGN FIRMS SEEKING TO TAKE OVER FRENCH COMPANIES, PARTICULARLY THOSE IN HIGH TECHNOLOGY SECTORS. THE FRENCH WILL ALSO PUT INCREASED PRESSURE ON FOREIGN FIRMS TO LOCATE IN AREAS OUTSIDE THE PARIS REGION. ON THE REVERSE INVESTMENT SIDE, WE EXPECT MORE FRENCH INVESTMENT ABROAD SINCE THE GOF IS CONVINCED THAT ITS FIRMS MUST GO MULTINATIONAL IF THEY ARE TO COMPETE EFFECTIVELY ON A GLOBAL SCALE.

C. EC INDUSTRIAL POLICY. FRANCE HAS BEEN IN
THE FOREFRONT AMONG ITS EC PARTNERS IN DEVELOPING A
COMPREHENSIVE INDUSTRIAL STRATEGY. THUS IT HAS TENDED
TO SUPPORT COMMISSION EFFORTS TO DEVELOP A COMMUNITY-
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WIDE INDUSTRIAL POLICY EVEN THOUGH THESE AMOUNTED TO
LITTLE IN PRACTICE. BUT NOW THAT THE GOF HAS INDICATED
THAT IT WILL FOLLOW A LESS INTERVENTIONIST APPROACH, IT
COULD WELL BE SOMEWHAT CAUTIOUS REGARDING SOME

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EUROPEAN-WIDE INDUSTRIAL POLICY INITIATIVES. HOWEVER, WE EXPECT THAT IN CASES WHERE ITS OWN INTERESTS ARE HEAVILY AFFECTED, E.G., STEEL, TEXTILES, AND PETROLEUM REFINING, FRANCE WILL CONTINUE TO BE MORE INCLINED THAN ITS EC PARTNERYHTOHACCEPT COMMUNITY INDUSTRIAL POLICY SOLUTIONS.

D. NORTH-SOUTH DIALOGUE. MORE IN RHETORIC THAN IN FACT, THE GOF HWS SUPPORTED EFFORTS TO AUGMENT THE TRANSFER OF RESOURCES TO THE THIRD WORLD. HOWEVER, OF LATE WE HAVE DETECTED A CHANGE IN FRENCH TONE, IF NOT POLICY, RELATIVE TO THE NORTH-SOUTH

DIALOGUE. THE CHANGE MAY RESULT FROM A GREATER SENSE OF RESOURCE LIMITATIONS AND PERHAPS IN PART FROM INCREASING CONCERN REGARDING "SAVAGE"IMPORTS FROM THE DEVELOPING COUNTRIES, WHICH ARE SEEN AS THE CAUSE FOR THE DECLINE OF CERTAIN STRATEGIC INDUSTRIES, E.G., TEXTILES. THUS, FRANCE MAY WELL SLIP OUT OF ITS VANGUARD POSITION AND ADOPT AN INCREASINGLY CAUTIOUS APPROACH TO THE DIALOGUE.

8. CONCLUSION. THE NEW INDUSTRIAL POLICY REPRESENTS A RADICAL DEPARTURE FOR THE FRENCH. IT WILL WORK MAINLY THROUGH THE FINANCIAL SYSTEM AND THE PRICE SYSTEM. THE GOF IS KEEPING ITS OPTIONS OPEN AND NO SPECIFIC PLANS HAVE BEEN ANNOUNCED, ONLY GENERAL GUIDE-LINES. THIS APPROACH HAS THE ADVANTAGE OF NOT SETTING UP OBVIOUS TARGETS WHICH MIGHT PROVE HARD TO ACHIEVE. HOWEVER, HOW MUCH OF THE NEW POLICY IS RHETORIC, HOW MANY EXCEPTIONS TO THE RULE THERE WILL BE, REMAIN TO BE SEEN. WHAT WE CAN SAY IS THAT IT WILL BE EXTREMELY DIFFICULT TO CHANGE LONG INGRAINED HABITS AND BIASES BY THE STROKE OF A PEN:

--FRENCH BUSINESSMEN HAVE TAKEN FOR GRANTED THAT THE GOVERNMENT WILL BAIL THEM OUT WHEN THEY ARE IN DIFFICULTY;

--THE FRENCH CONSUMER LOOKS TO THE GOVERNMENT TO HOLD PRICES DOWN AND BLAMES THE GOVERNMENT WHEN THEY RISE;

--WORKERS ARE USED TO JOB SECURITY AND EXPECT THE GOVERNMENT TO STEP IN TO INSURE THAT THEIR PLACE OF WORK REMAINS OPEN;

--THE UNEMPLOYED ARE RELUCTANT TO ACCEPT JOBS DONE "TRADITIONALLY" BY FOREIGNERS AND TO ACCEPT EMPLOYMENT OUTSIDE THEIR REGION;

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--THE SOCIAL SECURITY SYSTEM HAS A BUILT-IN BIAS AGAINST WORK SINCE SOME UNEMPLOYED WORKERS CAN RECEIVE 90 PERCENT OF THEIR BASE PAY FOR ONE YEAR WITH THE RESULT THAT A NUMBER OF JOB OPPORTUNITIES GO UNFILLED OR ARE TAKEN BY FOREIGN WORKERS;
--THE BUREAUCRACY HAS TRADITIONALLY MEDDLED IN PRIVATE SECTOR ACTIVITIES AND WILL HAVE A DIFFICULT TIME ADHERING TO A NON-INTERVENTION POLICY;
--THE POLITICIANS HAVE NORMALLY BE IN A POSITION TO TURN ON THE PARIS SPIGOT TO PUT OUT THEIR IMPACTED REGION BRUSH FIRES AND WILL BE RELUCTANT TO SEE THIS SOURCE OF ASSISTANCE DRY UP IN THE NAME OF FREE COMPETITION; AND
--NATIONAL INTEREST CONSIDERATIONS, E.G., STEEL, FREQUENTLY COUPLED WITH THE "SAVAGE" IMPORTS ARGUMENT PROVIDE A COMPELLING CASE FOR ASSISTANCE TO PARTICULAR INDUSTRIES.

IN SUM, POLITICAL AND SOCIAL CONSIDERATIONS STREW THE NEW INDUSTRIAL POLICY PATH AND IT WILL REQUIRE A MAJOR EFFORT FOR THE GOVERNMENT AND THE EXPENDITURE OF CONSIDERABLE POLITICAL CAPITAL TO KEEP THIS POLICY ON THE STRAIGHT AND NARROW.
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